

Message Text

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ACTION NEA-10

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INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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FM AMEMBASSY CAIRO
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E.O. 11652: N/A
TAGS: EFIN, ECON, PINT, EG, ELAB
SUBJECT: PRIME MINISTER ON SUBSIDY CUTS; MINFIN ON 1978 BUDGET

REF: CAIRO 15139

1. AS PART OF GOE CAMPAIGN TO EXPLAIN SUBSIDY POLICY, PRIME MINISTER MAMDUH SALEM MET SEPT. 11 WITH LABOR UNION REPS. SALEM ONCE AGAIN ASSURED THE LABOR LEADERS, ACCORDING TO PRESS REPORTS, THAT GOE WOULD NEVER MAKE SUBSIDY CUTS ON CERTAIN (ESSENTIAL) GOODS WITHOUT DISCUSSION WITH THOSE AFFECTED AND WITHOUT APPROVAL OF THE "MASSES". IN REPLY TO SPECIFIC QUESTION FROM SAAD MUHAMMAD AHMAD, CHAIRMAN, GENERAL FEDERATION OF TRADE UNIONS, THE PM SAID GOE WOULD NOT IMPOSE ANY SUBSIDY REMOVALS WITHOUT THE PEOPLE'S CONCENT. PM WENT ON TO SAY THAT GOE BELIEVES THOSE WHO ARE ABLE SHOULD PAY FULL COST OF ALL GOODS CONSUMED; HE ASSURED POOR, AT SAME TIME, THEY WOULD NOT BE DISADVANTAGED.

2. IN SEPARATE BUT RELATED ITEM, MINISTER OFFINANCE SALAH HAMID, DISCUSSING 1978 BUDGET, ANNOUNCED THAT INTERNAL BUDGETARY DEFICIT WOULD BE REDUCED FROM LE 400 MILLION TO

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ABOUT LE 150 MILLION. DECREASE WILL BE EFFECTED, ACCORDING TO HAMID, BY "INCREASE IN PRODUCTION AND STATE REVENUES." (FYI: SINCE SUBSIDY TOTAL IS ROUGHLY EQUAL TO BUDGET DEFICIT --SUBSIDY COST IN 1977 IS LE 380 MILLION-- MANY EQUATE DEFICIT REDUCTION WITH AMOUNT OF SUBSIDY CUTS. GOVERNMENT'S 1977 BUDGET, PROPOSED ON JANUARY 17, 1977, WHICH REDUCED BUDGET DEFICIT TO LE 150 M PRIMARILY BY ELIMINATING MANY IMPORTANT SUBSIDIES,

OF COURSE, LED TO PRICE RIOTS. END FYI.)

3. COMMENT: LABOR UNIONS ARE REPORTEDLY URGING GOVERNMENT NOT TO CARRY THROUGH WITH PROPOSED SUBSIDY CUTS. SALEM'S CATEGORIC ASSURANCE TO THEM REGARDING PUBLIC DEBATE SUGGESTS THAT DECISION PROCESS ON SUBSIDY REDUCTION WILL BE LENGTHY ONE. GIVEN PERCEIVED LINK BETWEEN BUDGET DEFICIT AND SUBSIDY CUTS, MINISTER OF FINANCE'S STATEMENT ABOUT BUDGET DEFICIT REDUCTION COULD BE INTERPRETED AS CONTRADICTORY TO PM'S ASSURANCES AND MAY SHOW EXTENT TO WHICH GOE ALREADY COMMITTED TO SUBSIDY CUTS IN 1978 BUDGET. MENTION OF INCREASE IN PRODUCTION AND IN STATE REVENUES, WHICH COULD BE EFFECTED THROUGH BETTER TAX AND CUSTOMS COLLECTION AND CUTS IN GOVERNMENT EXPEDITURES AS WELL AS THROUGH SUBSIDY CUTS, MAY ALSO INDICATE FALLBACK POSITION SHOULD SUBSIDY CUTS PROVE POLITICALLY IMPOSSIBLE.
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